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# **Agenda Item #8b – Investment of LAFCO Funds**



February 8, 2006

**TO:** Local Agency Formation Commission

**FROM:** Executive Officer  
Assistant Executive Officer

**SUBJECT:** Investment of LAFCO Funds

**CHAIR**  
**SUSAN WILSON**  
Representative of  
General Public

**VICE CHAIR**  
**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

**BILL CAMPBELL**  
Supervisor  
Third District

**PETER HERZOG**  
Councilmember  
City of Lake Forest

**ARLENE SCHAFER**  
Director  
Costa Mesa  
Sanitary District

**TOM WILSON**  
Supervisor  
Fifth District

**JOHN WITHERS**  
Director  
Irvine Ranch Water District

**ALTERNATE**  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

**ALTERNATE**  
**RHONDA MCCUNE**  
Representative of  
General Public

**ALTERNATE**  
**JAMES W. SILVA**  
Supervisor  
Second District

**ALTERNATE**  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

### Background

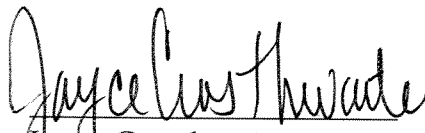
On October 12, 2005, the Commission provided direction to staff for the investment of LAFCO funds that are not required for the agency's immediate needs (see Attachment 1). The Commission authorized staff to invest the majority of the agency's funds in the Local Agency Investment Fund (LAIF). LAIF is a voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts. The program offers local agencies the opportunity to participate in a major portfolio using the investment expertise of the State Treasurer's Office.


To participate in LAIF, local governmental agencies are required to file a resolution adopted by the agency's governing board with the State Treasurer's Office. The draft resolution (Attachment 2) designates two LAFCO staff, the Executive Officer and the Assistant Executive Officer, to deposit and withdraw monies in the LAIF fund.

### Recommendation

1. Adopt the resolution (Attachment 2) authorizing staff to invest agency funds in the Local Agency Investment Fund.

Respectfully submitted,

  
Joyce Crosthwaite

  
Bob Aldrich

Attachment 1: LAFCO Staff Report – October 12, 2005  
Attachment 2: Draft LAIF Resolution



October 12, 2005

CHAIR  
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Representative of  
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**JOYCE CROSTHWAITE**  
Executive Officer

**TO:** Local Agency Formation Commission

**FROM:** Executive Officer  
Assistant Executive Officer

**SUBJECT:** Investment of LAFCO Funds

### **Background**

On February 9, 2005, the Commission adopted an Agency Investment Policy (see Attachment 1) that establishes guidelines for the prudent investment of agency funds. The policy's guidelines help to ensure that LAFCO funds are prudently invested to achieve a reasonable return, while giving the highest priority to both safety and liquidity of the agency funds.

The policy allows investment of agency funds (not required for the immediate needs of Orange County LAFCO) to be invested in:

- The State Local Agency Investment Fund (LAIF), or
- U.S. Government and Agencies obligations (subject to Commission approval), or
- Negotiable Certificates of Deposit (subject to Commission approval)

This report summarizes the advantages and disadvantages of each investment type permitted by LAFCO's investment policy and offers specific recommendations for the investment and monitoring of FY 05-06 agency funds.

### **How are LAFCOs Funded?**

State law (Government Code Section 56381) dictates how LAFCOs are funded throughout California. By June 15<sup>th</sup> of each year, the Commission is required to adopt an annual budget to cover agency operations. That amount is divided equally between our funding agencies - the County, cities and independent special districts. Each pays one-third of LAFCO's costs.

The Auditor-Controller bills these agencies during July of each year, and funds are deposited in LAFCO's accounts to pay the agency's operational costs throughout the fiscal year. LAFCO currently maintains three fund accounts. Our primary accounts include both a savings and checking account with Wells Fargo Bank. In addition, we maintain a single County account used for employee payroll services only.

### **Advantages and Disadvantages of Investment Types**

Attachment 2 of this report summarizes the advantages and disadvantages of the various investment types permitted under the Commission's Agency Investment Policy. As indicated in the attachment, U. S. Treasury Bills, U. S. Treasury Notes, Agency Securities, and Certificates of Deposit offer higher annual yields (on average) than the Local Agency Investment Fund (LAIF). LAIF, however, offers a distinct advantage over the other investment instruments by providing fund liquidity. LAIF permits up to ten fund transfers per month without penalty.

### **What is LAIF?**

The Local Agency Investment Fund (LAIF) is a voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts. The program offers local agencies the opportunity to participate in a major portfolio that invests hundreds of millions of dollars using the investment expertise of the State Treasurer's Office. The Local Investment Advisor Board provides oversight for LAIF. The Board consists of five members, each with expertise in the field of investment or finance, and is headed by the State Treasurer. The LAIF has grown from 293 participants and \$468 million in 1977 to 2,702 participants and \$18.6 billion in 2005. A chart showing the LAIF quarterly apportionment rates since the fund's inception is included as Attachment 3 for your review.

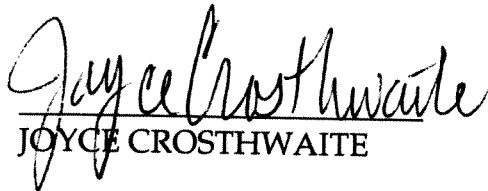
### **Recommendations**

Because almost all of Orange LAFCO's funds are collected in the beginning of each fiscal year, there is a substantial amount of money that is available early in the fiscal year that is not required for the agency's immediate needs. LAFCO's FY 05-06 budget is close to \$1 million. Staff, in consultation with our agency's certified public accountant, recommends the following:

1. Maintain approximately \$100,000 in the agency's payroll account and \$100,000 in the agency's checking account at all times to cover near-term employee and agency operating costs.
2. Invest the Commission's \$175,000 emergency account (to cover potential Commission litigation expenses) in a 10-month Certificate of Deposit.

3. Invest approximately \$600,000 in the State's Local Agency Investment Fund (LAIF).
4. Delegate quarterly monitoring of LAFCO's investments to LAFCO Executive Committee and direct staff to include investment updates to the full Commission as part of the quarterly budget update reports. Quarterly budget/investment updates will be provided to the Commission in August, November, February and May of each year.

Respectfully submitted,

  
JOYCE CROSTHWAITE

  
BOB ALDRICH

Attachments:

1. LAFCO Investment Policy
2. Investment Comparison Chart
3. LAIF Quarterly Apportionment Rates



**POLICIES & PROCEDURES**  
of the  
**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION**

<b>SUBJECT:</b>	<b>Agency Investment Policy</b>		
<b>Date Approved by the Commission:</b>	Original: 02/09/2005	<b>Date of last Revision:</b>	N/A

## **I. AUTHORITY**

In accordance with Section 53600 et seq. of the Government Code of the State of California, the authority to invest public funds not required for the immediate needs of the agency is expressly delegated to the Orange County Local Agency Formation Commission (LAFCO) for subsequent re-delegation to the LAFCO Executive Committee and the Executive Officer.

The purpose of this policy is to establish investment guidelines for Orange County LAFCO officials to ensure the stewardship of agency funds. Any funds which are not required for the immediate needs of Orange County LAFCO shall be prudently invested. All funds shall be invested in a manner which will ensure the safety of public funds by mitigating credit and interest rate risk and provide sufficient liquidity to meet all operating requirements. LAFCO shall strive to attain a return on investments that is reasonable given the safety of the principal and liquidity objectives and the secondary importance of yield. All investments shall be in conformance with federal, state and other legal requirements.

Investments made pursuant to this policy are limited to those instruments specified by Orange County LAFCO. The Commission shall review the investment program quarterly.

## **II. INVESTMENT OBJECTIVES**

The specific objectives for all funds invested as defined by this policy are listed in priority order as follows:

### **A. SAFETY OF PRINCIPAL**

The preservation of principal is of primary importance. Each transaction shall seek to ensure that capital losses are avoided.

### **B. LEGALITY**

Each transaction and the entire investment program must comply with the California Government Code and Orange County LAFCO's investment policy as defined herein.

### **C. LIQUIDITY**

The invested funds should remain sufficiently flexible to enable Orange County LAFCO to meet all operating requirements which may be reasonably anticipated.

**D. PUBLIC TRUST**

In managing any Orange County LAFCO investments, LAFCO shall avoid any transactions that might impair public confidence. Investments should be made with precision and care, considering the safety of the capital. The prudent investor standard, a standard of conduct requiring that any investment be made with care, skill, prudence, and diligence, shall be used in order to safeguard the funds and meet the liquidity needs of LAFCO.

**E. RETURN ON INVESTMENT**

Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

**III. DELEGATION OF AUTHORITY**

Authority to manage LAFCO's investment program is delegated to the Orange County LAFCO Commission. Management responsibility is hereby delegated to the Executive Committee and the Executive Officer under the direction of the full Orange County LAFCO Commission.

**IV. AUTHORIZED INVESTMENTS**

Agency funds are not required for the immediate needs of Orange County LAFCO may be invested as follows:

**A. STATE'S LOCAL AGENCY INVESTMENT FUND**

Agency funds not required for immediate needs of Orange County LAFCO may be remitted to the State Local Agency Investment Fund (LAIF) for the purpose of investment (Government Code Section 16429.1).

**B. OTHER INVESTMENTS**

Other investments as permitted by Government Code Section 53600 may be made subject to prior approval of the Commission and may include the following:

- U.S. Government and Agencies obligations
- Negotiable Certificates of Deposit issued by a nationally or state chartered bank, a state or federal savings and loan association, or savings bank with ratings equivalent by Fitch to F1 or better

**V. REPORTING**

The Executive Officer shall submit a quarterly report to the Commission showing investment activity, including yield and earnings and the status of cash by depository.

As part of the Commission's annual audit, the independent auditor shall also evaluate investment performance and conduct an operations audit. The purpose of these examinations shall be to obtain suggestions for improved future performance and to verify that investment has been done in accordance with this policy and all applicable laws.

**VI. ADMINISTRATION**

The Commission may at any time further restrict the securities approved for investment as deemed appropriate.



## INVESTMENT COMPARISONS

<u>Type of Investment</u>	<u>Annual Yield</u>	<u>Fees</u>	<u>Advantages</u>	<u>Disadvantage</u>	<u>Other Comments</u>
Local Agency Investment Fund	2.85%	0.24%	Liquidity	LAIF holds certain risky investments in the pool	Limited to 10 transactions per month
U.S. Treasury Bills - 6 mo.	3.53%	1,2	Risk free	Investment cannot be liquidated prior to maturity without a potential loss.	
U.S. Treasury Notes - 1 yr.	3.64%	1,2	Risk free	Investment cannot be liquidated prior to maturity without a potential loss.	
Agency Securities - 6 mo. (e.g. FNMA, FHLB, GNMA, FHLMC)	4.12% *	1,2	Low risk	Investment cannot be liquidated prior to maturity without a potential loss.	Most agency securities are fully backed by the federal government.
Agency Securities - 1 yr. (e.g. FNMA, FHLB, GNMA, FHLMC)	4.30% *	1,2	Low risk	Investment cannot be liquidated prior to maturity without a potential loss.	Most agency securities are fully backed by the federal government.
Certificates of Deposit - 10 mo.	3.80%		Broker is typically not needed. Your bank offers CD's, so a custodian is also not needed.	Increased risk, cannot be liquidated prior to maturity	
Certificates of Deposit - 15 mo.	4.00%		Broker is typically not needed. Your bank offers CD's, so a custodian is also not needed.	Increased risk, cannot be liquidated prior to maturity	

\* Source = FHLB Seattle

1. Investments other than LAIF will need to be held in a custodian account (Bank of New York, Union Bank, US Bank). Depending on the bank used, fees may vary.
2. It is recommended that local governments use a broker/dealer separate from the custodian. Additional fees may apply.

Phil Angelides, State Treasurer  
Inside the State Treasurer's Office



## LOCAL AGENCY INVESTMENT FUND QUARTERLY APPORTIONMENT RATES

	MARCH	JUNE	SEPTEMBER	DECEMBER
1977	5.68	5.78	5.84	6.45
1978	6.97	7.35	7.86	8.32
1979	8.81	9.10	9.26	10.06
1980	11.11	11.54	10.01	10.47
1981	11.23	11.68	12.40	11.91
1982	11.82	11.99	11.74	10.71
1983	9.87	9.64	10.04	10.18
1984	10.32	10.88	11.53	11.41
1985	10.32	9.98	9.54	9.43
1986	9.09	8.39	7.81	7.48
1987	7.24	7.21	7.54	7.97
1988	8.01	7.87	8.20	8.45
1989	8.76	9.13	8.87	8.68
1990	8.52	8.50	8.39	8.27
1991	7.97	7.38	7.00	6.52
1992	5.87	5.45	4.97	4.67
1993	4.64	4.51	4.44	4.36
1994	4.25	4.45	4.96	5.37
1995	5.76	5.98	5.89	5.76
1996	5.62	5.52	5.57	5.58
1997	5.56	5.63	5.68	5.71
1998	5.70	5.66	5.64	5.46
1999	5.19	5.08	5.21	5.49
2000	5.80	6.18	6.47	6.52
2001	6.16	5.32	4.47	3.52
2002	2.96	2.75	2.63	2.31
2003	1.98	1.77	1.63	1.56
2004	1.47	1.44	1.67	2.00
2005	2.38	2.85		

RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION  
OF ORANGE COUNTY, CALIFORNIA  
AUTHORIZING INVESTMENT OF MONIES  
IN THE LOCAL AGENCY INVESTMENT FUND (LAIF)

February 8, 2006

On motion of Commissioner \_\_\_\_\_, duly seconded and carried, the following resolution was adopted:

WHEREAS, Pursuant to Chapter 730 of the statutes of 1976 Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

WHEREAS, the Orange County Local Agency Formation Commission does hereby find that the deposit and withdrawal of money in the Local Agency Investment Fund in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein is in the best interests of the agency.

NOW THEREFORE, BE IT RESOLVED, that the Orange County Local Agency Formation Commission does hereby authorize the deposit and withdrawal of agency monies in the Local Agency Investment Fund in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein, and verification by the State Treasurer's Office of all banking information provided in that regard

BE IT FURTHER RESOLVED, that the following LAFCO staff members, or their successors, shall be authorized to order the deposit or withdrawal of monies in the Local Agency Investment Fund:

Joyce Crosthwaite  
LAFCO Executive Officer

Bob Aldrich  
Assistant Executive Officer

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

AYES:

NOES:

STATE OF CALIFORNIA    )

) SS.

COUNTY OF ORANGE        )

I, Robert Bouer, Chair of the Local Agency Formation Commission of Orange County, California, hereby certify that the above and foregoing resolution was duly and regularly adopted by said Commission at a regular meeting thereof, held on the 8th day of February 2006.

IN WITNESS WHEREOF, I have hereunto set my hand this 8<sup>th</sup> day of February 2006.

ROBERT BOUER  
Chair of the Orange County  
Local Agency Formation Commission

By: \_\_\_\_\_  
Robert Bouer